

Audit and Compliance Committee Memorandum

Board of Regents, State of Iowa

Subject: State of Iowa Audit Reports

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Date Submitted: October 20, 2004

Recommended Action:

Receive State of Iowa audit reports for the fiscal year ended June 30, 2003:

- The Comprehensive Annual Financial Report (CAFR); and
- The Single Audit Report (SAR).

Executive Summary:

Two State of Iowa audit reports are released on an annual basis that contain information regarding the five Regent institutions, the Board Office, and the rest of state government.

- The CAFR presents the aggregated financial data for the state. In the FY 2003 report, the State Auditor noted that state appropriations from the Rebuild Iowa Infrastructure Fund were used for items inconsistent with the fund's legislatively established purpose.
- The SAR covers financial, compliance, and control aspects of federal programs administered by state agencies, institutions, and universities. There were no reports of non-compliance for the Regent Institutions and the Board Office. However, the FY 2003 report included two reportable conditions for ISU regarding ongoing investigations on grant management and one for UNI regarding allowability of expenditures.

These reports are normally presented each summer. The Board Office held presentation of these reports until a comprehensive report of all state audits could be made by the State Auditor, David Vaudt.

Copies of the CAFR were distributed to the members of the Board of Regents by the Iowa Department of Administrative Services – State Accounting Enterprise. Copies of the SAR were distributed to the members of the Board of Regents by the State Auditor's Office.

Background:

CAFR The CAFR provides a broad perspective of the State of Iowa's financial activity with a general overview of the condition of the state, audited financial statements of the state, and a statistical section containing financial and demographic information.

The introductory section provides a synopsis of the economic condition and outlook for the state, major state initiatives, and summary financial data. The financial section contains the State Auditor's Report on the state's financial statements.

SAR The SAR, required by federal law, covers the disbursement of federal funds by all state agencies, institutions, and universities, as well as a review of internal controls, compliance with federal laws and regulations, and follow-up on prior year federal comments.

The report details findings and questions costs regarding federal programs administered by all state agencies.

Analysis:

Comprehensive Annual Financial Report

Purpose This audit was conducted to obtain reasonable assurance about whether the general purpose financial statements for the State of Iowa are free of material misstatement.

Conclusions The auditor's report indicated that the various financial statements present fairly the financial position and changes in financial position and cash flow in conforming with generally accepted accounting standards. The audit report noted that state appropriations of \$29.2 million were made from the Rebuild Iowa Infrastructure Fund (RIIF) for items that are inconsistent with the fund's legislatively established purpose. The fund was established for public vertical infrastructure-related expenditures.

The items considered by the auditor as inconsistent included natural resources and conservation programs, technology support, and routine maintenance for state buildings. The auditor reported these items as General Fund expenditures.

Revenue exceeded expenses by \$262.5 million for FY 2003. The net assets balance as of June 30, 2003, totaled over \$9.9 million, an increase of \$272,000 over the previous year.

Single Audit Report

Purpose The audit was conducted to:

- Consider the State of Iowa's internal control over financial reporting; and
- Test the state's compliance with certain provisions of laws, regulations, contracts, and grants.

Conclusions The auditor noted no matters involving the internal control over financial reporting and its operation that they consider to be material weaknesses (conditions which impact the level of risk that financial misstatement may occur and not be detected in a timely manner by employees in the normal course of operations).

The auditor concluded that the State of Iowa complied, in all material respects, with the applicable requirements of its major federal programs for the fiscal year ended June 30, 2003, except for requirements and allowable costs from the National Guard Special Military Operations and Projects.

Comments The FY 2003 report included two reportable conditions for ISU regarding ongoing investigations on grant management and one reportable condition for UNI regarding allowability of expenditures. See Audit and Compliance Committee item AUD 4, State Audit Reports.

Total federal financial assistance for the year ended June 30, 2003 totaled nearly \$4.5 billion.